Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 24 November 2015

Financial Strategy and Plan

1. Contacts

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2. Executive Summary

The purpose of this report is to assist Cabinet in updating the Council's financial strategy and action plan to help guide the management of the Council's finances during a period of diminishing resources, and to build upon the work already achieved in this area in previous years.

The Council currently anticipates further government funding reductions over the course of the next five years which, without intervention, would create a deficit in our revenue position that must be addressed if we are to comply with the legal requirement of setting a balanced budget each year. This report sets out the key financial principles and actions that will assist in this process.

The challenge facing the Council remains being able to provide services that meet community needs with a significantly reduced overall level of government resource.

The key recommendations from this report will help to formulate the 2016/17 budget, and level of Council Tax.

3. Recommendations to Cabinet:

3.1. **In the short to medium term the Council maintains a minimum level of reserves of £5m for general purposes.**

3.2. **To maintain the current provision of £1.3m of revenue support to smooth the impact of funding reductions, and volatility associated with the comprehensive spending review and full localisation of Business Rates.**

3.3. **The Council should continue to aim to set balanced budgets without the use of reserves, although some use of reserves in the short term may be necessary.**

3.4. **That in order to achieve a balanced budget over the medium term, officers should work up options for consideration by cabinet to implement a new deficit reduction programme.**

4. Background

4.1. The 5 year Financial Strategy and the principles contained within it underpin the forthcoming budget cycle. Whilst some economic projections appear to be on the up side, and inflation remains low, public sector spending is still set to reduce for the foreseeable future. The government's 2013 spending review has delivered challenging settlements for 2014/15 and 2015/16, and it is anticipated that the forthcoming spending review, due on 25 November, will undoubtedly continue the trend of ever reducing government funding into 2016/17 and beyond. The Council, therefore, has to manage service delivery with increasing costs, whilst also addressing continuing reductions in available government resource.

4.2. **The 2016/17 Settlement**

The 2015 spending review is not expected until 25 November, long after this report will have been published, and unfortunately after the committee will have met. There have, however, been recent announcements in the press that the Department for Communities and Local Government (DCLG) have agreed to 8% per year reductions for 4 years, or cumulative reductions of 30%. This does not however mean that we should plan for a similar reduction, as services within DCLG's spending allocations will receive differing levels of priority, and therefore different levels of funding reductions. District authority services have fared poorly in this regard in previous settlements. We will not know the implications of this for Chichester until the draft funding allocations are announced in late December.

The government have also announced full localisation of business rates (Non-Domestic rates or NDR) by 2020. Although no detail is available as yet as to how this will be achieved, it is clear that there will, just as there is under the current 50% localisation methodology, be a need to balance the available resources from NDR with local need for funding. Therefore, a system of tariffs and to-ups will still be in place to distribute funding between authorities. The government have also indicated that alongside this there will also be new burdens passed onto local authorities. It is therefore unlikely that we will see significant increases in our funding as a result of this change in the NDR system.

It seems quite possible that there will be a further cap on business rate increases (multiplier) in 2016/17 which will presumably attract another off-setting grant – and possibly other reliefs for small businesses.

It is also possible that there may be another Council Tax freeze grant on offer for 2016/17, probably equivalent to a 1% increase in Council Tax. The way in which previous Council Tax freeze grants have been handled has not been consistent:

- 2011/12 now separately identified, permanent
- 2012/13 entirely one-off
- 2013/14 now separately identified, permanent

- 2014/15 1% paid in both 14/15 and 15/16
- 2015/16 is expected to be permanent

In this context, “permanent” actually means until the next spending review. There is no guarantee therefore that any of this funding will continue into the 2016/17 settlement. The alternative to taking the freeze grant is an increase in Council Tax. Although not yet confirmed it is likely that this will be capped at no more than 2% (£2.81 per year for a band D property). Such an increase would be a permanent, recurring increase in the tax base. Any increase above 2% would normally require a referendum, which would be very expensive to carry out, and in all probability be unlikely to succeed.

4.3. **Beyond 2016/17**

The previous coalition Government has pursued a very clear fiscal policy which has resulted in significant funding reductions for local government and it seems clear that this trend will continue for the foreseeable future. Certain aspects of state spending are likely to continue to receive a greater degree of protection, education and health for example, while others such as local government will be protected to a lesser extent.

The future of New Homes Bonus (NHB) hangs in the balance. This is currently funded from the government’s share of NDR. So with full localisation of NDR in the future it seems almost certain that NHB will be lost as a source of funding. So far this council has not used NHB to balance its budget, instead reserving the money for one off community projects. This has minimised our risk should this funding source be reduced or removed.

The 5 year financial model (Appendix 1) has been updated to reflect the current officers’ best estimates of what may occur in 2016/17 and beyond. The model assumes the balance of deficit reduction plan will be delivered on schedule, together with further savings and investment returns managed by the commercial and business improvement programme boards. The current model also assumes that significant savings will materialise from the current Leisure outsourcing project should members decide to outsource leisure management. This model will of course be kept under review so that the Council has time to respond should the situation, and government funding, deteriorate faster than currently predicted.

4.4. Beyond 2016/17 it is predicted that our RSG will continue to be progressively withdrawn, and by 2020/21it will have gone completely. It is therefore more important than ever that we look to maximise our ability to raise revenue locally. The Council’s Estates Service have been pursuing a number of investment and asset realisation opportunities. In addition to the economic and community benefits that such investment brings to the district, they also help to reduce our dependence on central government funding. As an alternative, officers are currently investigating investment opportunities in Local Authority Property funds. These are pooled investments in property, and as such are backed by assets providing security over the longer term. Although offering slightly lower returns than our own in house investments (circa 5% versus 8 – 9%) they do offer an alternative relatively good return for long term balances as opposed to traditional Treasury Management deposits.

4.5. Appendix 2 sets out our current level of reserves, the commitments against those reserves, and therefore the potential sum available for Council to invest in new schemes.

4.6. **In addition to government funding, other uncertainties and risks still remain which will impact on the Council's financial position, and make forecasting budgets more difficult**. These include:

- **Income from Fees and Charges.** The Council currently relies on £19m of income from its fees and charges to balance its budget. Over recent years we have witnessed a reduction in income from some service areas. However, since 2014/15 we have witnessed a gradual increase in income, primarily in relation to car parks and planning fees. These have been built into the 5 year model.

- **The effects of inflation**. Inflation remains extremely low, and CPI is expected to remain at below 1% for the rest of the year. However, some services have struggled in recent years to pass on the effects of inflation in setting their fees as customers are unable or unwilling to bear the increased cost. Fee levels have not kept pace with inflation in all services.

- **Pay settlements.** Following repeated pay freezes, local government has returned to limited increases. While the current Government is still advocating pay restraint there is a risk over the longer term of increased pressure on national pay negotiations, especially if private sector pay increases outstrip the public sector. The current 5 year model assumes a further 1% increase in the next 3 years, and 2% thereafter. Some services have already struggled to recruit staff, especially where we are competing with the private sector, and some limited use of market supplements has had to be offered to fill vacancies.

- **The localisation of Business Rates.** 50% localisation of NDR brought both opportunity and risk, as a change in the business rate base locally will directly impact our funding. Localisation brings with it volatility as losses on collection will largely fall on local councils in future rather than on the national pool. Of particular concern is the treatment of historic appeal refunds, which will be funded local authorities in future. The government's recent announcement to fully localise NDR by 2020 may present an opportunity to retain more growth, but all of the other associated risks are likely to remain. No details have yet been released. As agreed at the October 2014 Cabinet we have formed an NDR pool with other West Sussex authorities in order to maximise the amount of growth that can be retained locally. Current projections anticipate that £2.5m of business rate growth that would otherwise have been lost to central government will be retained in the current year by the pool. Full localisation may well dispense with the need to continue with business rate pools in the future. However, in the interim it is proposed that we should continue to pool business rates with other authorities in West Sussex to maximise the amount of funding that can be retained.

- **The localisation of Council Tax Reduction (CRT)**. Currently, expenditure on this has fallen since the 2015/16 budget was set.

However, localisation means that any increase in demand for support will have to be met locally in full in future. Government proposals to alter tax credit entitlement may push demand against this budget back up during next year. Current estimates indicate that this can be contained within budget, but a full review of CTR will be undertaken during 2016 in time for setting the 2017/18 CTR scheme.

- **Council Tax increase**. Last year full Council took the decision to freeze Council Tax. The 5 year model has been amended to reflect the position should that decision for 2015/16 continue and the Council Tax remains frozen throughout the next 5 years. The financial effect of a continued tax freeze would be to forego the following annual income, amounting to a total of £2.2m over the 5 year period:

Year	2016/17	2017/18	2018/19	2019/20	2020/21
£'000	142	289	440	595	755

Should members choose to freeze council tax in 2016/17, as we are currently predicting a surplus in that year, but then increase Council Tax by 2% per year in the following years, the following additional income would be generated to assist in balancing the budget over the longer term:

Year	2016/17	2017/18	2018/19	2019/20	2020/21
£'000	-	144	292	444	601

This equates to £1.48m over the 5 year period. The decision to set Council Tax is taken annually by full council.

- **Welfare reform**, including changes to Housing Benefit and the phased introduction of Universal Credit, which will impact on certain services such as Benefits and Housing.

- **The New Homes Bonus** where funding is linked to growth in domestic properties, but is funded nationally by reducing the amount of government grant. This effectively, then, is a distribution of local government funding via a different mechanism, and is not new funding. The future of this source of funding is very uncertain. In the current 5 year model officers have assumed no further years of NHB allocations will be added and the scheme will effectively whither over the period up to 2020, then be removed altogether. Again this may become clearer after the CSR announcements on 25 November.

- **Amended Waste Regulations and increased recycling targets.** New and tougher recycling targets and the need to separate out types of recyclate materials may drive substantially increased waste costs. An indicative estimate of £0.7m per year has been included in the 5 year model based on officers current projections.

- **Cultural grants to the Chichester Festival Theatre and Pallant House Gallery.** These are currently funded from earmarked reserves which will be exhausted in 2017/18. No further provision has been made for these beyond March 2018.

4.7. The Council took early action as the current financial crisis started to emerge and has, from 2010/11 to 2015/16, achieved in excess of £7.8m of savings and increased income. In May 2013, members approved a £2.4m deficit reduction programme. This is on target to deliver savings of £2.8m and the balance of this (£0.5m) is assumed within the 5 year model. Further savings are being tracked via the programme boards, and these are due to deliver a further £2.6m over the next 5 years. It has been via this medium term modelling that the Council has been able to plan ahead, and implement sensible and considered efficiencies in a timely fashion. This planning has helped to avoid making severe service cuts, yet thus far enabled us to balance our budgets. Additionally it has enabled us to preserve the NHB funding for community benefit. A further benefit of careful planning has been that we have been able to implement localised Council Tax Reduction in a way that has protected claimants.

4.8. The current 5 year financial model (Appendix 1) has been updated to reflect current assumptions including government funding reductions and a council tax freeze, as well as projected costs and planned efficiencies. This demonstrates shows a balanced budget over the next 2 years subject to delivery of all of the other uncertainties set out above. However, from 2018/19 we are currently projecting a deficit on the budget, and by year 5 of the model this deficit is projected to be in the region of £1.2m. It remains essential, therefore, that we sustain the sound platform we currently have, and keep under continuing review the projected 5 year position. Officers will work closely with cabinet to identify options to close this projected budget gap.

5. Outcomes to be achieved

5.1. The purpose of this report is to set out the key financial principles that should be applied over the short to medium term to help maintain a robust and balanced financial position for the Council, and which will be used to underpin the annual spending report in February to set the 2016-17 budget and Council Tax requirement.

6. Key Financial Principles

6.1. All key decisions of the Council should relate back to the Corporate Plan

(a) The Sustainable Community Strategy (SCS) is the overarching partnership document that sets out the long term vision for the District. The Strategy provides the background information to support the Council's priority setting, policies and resource allocation. The SCS will sit alongside the Local Plan Core Strategy in providing a framework for long-term public service delivery in the District.

(b) The Corporate Plan, which is the Council's contribution to the partnership SCS, is the driver for our decision making, including the allocation of resources, and sets the Council's work plan. Each year the Corporate Plan

is reviewed. The affordability role of finance in the corporate planning process has evolved into an assessment of what resources are required to deliver the emerging Corporate Plan projects, whilst maintaining high quality provision of services wherever possible.

(c) So far, major service reductions have been largely avoided. However, with finite resources that are predicted to continue to reduce in the immediate future, the Council may not be able to deliver all of its aspirations whilst maintaining existing services to the current level provided. Members may have to make difficult decisions in the future about service provision and competing priorities.

(d) Actions:

(i) Members and the Senior Leadership Team (SLT) will need to develop a strategy to eliminate the current projected budget deficit from 2018/19 onwards, as well as prioritise services should either they wish to redirect resources, or the financial position deteriorates beyond the current projections. Options to assist in closing this gap are already being investigated by officers and a report will be brought to members for consideration early in 2016.

6.2. **Ensure the revenue budget and capital programme remain balanced and sustainable over a rolling 5 year period.**

(a) There is a legal requirement to set a balanced revenue budget and ensure the capital programme is fully resourced. Over the last six years 2010/11 to 2015/16 the Council took action to balance the revenue budget without drawing on general reserves. The Statement of Resource Allocation (Appendix 2) demonstrates that the capital programme remains affordable. Within this, £1.3m has been earmarked as available to support the revenue budget should conditions dictate. Whilst the intention is to set a balanced budget over the medium term, this finite resource remains available to smooth the impact should there be any unanticipated adverse changes to our funding, or where service savings have been unavoidably delayed.

(b) The 5 year financial risk model has been updated as our current best estimate of the budget for the next five years, and is attached as Appendix 1. This indicates that, subject to all the uncertainties set out in part 4 of this report, and assuming that the deficit reduction programme is delivered on schedule, the budget for 2016/17 should be balanced. However a projected deficit from 2018/19 is currently anticipated.

(c) The Resources Allocation statement has been updated to reflect the current capital programme and is attached as Appendix 2. **The Corporate Governance and Audit Committee (CGAC) are asked to consider the appropriateness of the minimum level of reserves and make recommendations as appropriate to Cabinet.**

(d) Actions:

(i) The five year financial model will continue to be monitored and updated, and Cabinet is given regular briefings on this throughout the

year. Senior managers will work up options for members to consider how we will close the current projected deficit.

(ii) Budget monitoring for revenue and capital schemes is completed quarterly by budget managers, and following the demise of the knowledge hub will be reported to cabinet.

(iii) The deficit reduction programme agreed in 2013 is nearing completion, but this too will be monitored and reported. The three programme boards are now also monitoring efficiencies and savings and these will be reported to members.

6.3. **Over the next five years maintain a position of non-dependency on reserves.**

(a) Appropriate funding needs to be built into the revenue and capital budget, taking into account the whole life cost of the assets. With reserves being largely committed, the revenue budget will need to make an appropriate contribution to reserves to fund any future capital commitments.

(b) Base budgets incorporate repairs and maintenance to council buildings, thereby removing dependency on reserves for what is a recurring revenue cost. Similarly, other recurring items still funded from reserves must be built into future revenue budgets.

(c) Building Services have undertaken a full review of the existing asset base of the council and identified with service managers the need to reinvest in our existing essential assets. This is updated annually to ensure the current asset base remains affordable over the long term.

(d) Since 2010-11 the degree to which the revenue budget was supported by interest on investments was removed. This eliminated a key risk to the authority that large variances on interest receipts could have put immediate pressure on the revenue budget. Instead all interest receipts are recycled into funding the capital programme (interest receipts on S106 balances are ring-fenced to those funds). Any change in interest rates has still impacted the overall position of the Council, but has a less immediate impact than it has had for authorities that continue to rely on interest receipts to fund day to day activities. One of the options officers are investigating is the ability to invest a proportion of the Council's cash balances in long term property funds. This would provide a predictable return which could be incorporated into the base budget to help narrow the budget deficit without creating volatility and risk.

(e) Recent investment decisions in the Council's property portfolio will generate further revenue receipts for the Council. It is proposed that some of this additional income is recycled via council reserves to enable further investment going forward, rather than taking all of the income into the revenue budget. The precise amount to be recycled in this way will be determined as part of the detailed budget proposals brought to Cabinet in February 2016. The 5 year financial model takes into account income from historic investment decisions such as Barnfield Drive, Crane Street and the Enterprise Hub as part of the Commercial Programme Board.

(f) Actions:

(i) To build future demands for recurring expenditure into the five year Financial Model, and thereby into any potential savings target.

(ii) To avoid funding recurring expenditure from reserves as a key financial principle.

(iii) To determine annually an amount of revenue income to set aside for property investment.

6.4. **In order to maintain a balanced budget in a climate of reduced funding, savings in the revenue budget or external funding will need to be identified before any new revenue expenditure, including capital expenditure that has revenue consequences, is approved.**

(a) The Council needs to have certainty about capital and revenue funding before entering into new commitments. This will require robust project management processes to ensure the full consequences; both revenue and capital, of embarking on particular projects are known and understood from the outset. The whole life costs of the project must be considered.

(b) Where projects are dependent on match funding, the funding partner may impose certain conditions. The Council needs to clearly understand what those conditions are and their possible financial consequences. Projects should only proceed once all funding has been secured, and the conditions have been assessed and evaluated. The relevant service should also consider, in advance, any costs that may arise at the end of the project and prepare an exit strategy so that the full consequences are known in advance. Whole life costing should be used. Copies of all funding agreements should be copied to financial services to ensure all possible future liabilities are considered and documentation retained.

(c) Action:

(i) All Project Initiation Documents (PIDs) are to be based on whole life costs, and include an exit strategy.

6.5. **Review costs in response to changes in service demands.**

(a) The call upon Council services is fluctuating more during a period of economic and financial uncertainty. Whilst short-term variances in demand can be accommodated, any longer term trends, i.e. beyond one year, will require the Council to respond by redirecting its resources in line with changes in demand. This is a key principle as future changes in demand on services are bound to occur.

(b) Prioritising the Council's services will enable scarce resources to be directed to areas of need and priority over the medium term.

(c) Action:

(i) Essential services that experience an increase in demand will be recognised and supported. However, where there is an on-going reduction in demand beyond one year they should be reviewed in order to realign resource allocation.

6.6. **Where the Council has discretion over charging for services, consideration needs to be given as to the extent to which service users should bear the costs, and the proportion met by Council Tax.**

(a) The Council has limited discretion to set fees and charges for some services. Clearly, the setting of charges should have regard to community needs for those services as well as affordability. Traditionally, many fees and charges have increased in line with inflation. The Council has a Fees & Charges Policy. This requires services that have discretion to charge, to attempt to at least break even, unless there is a clear approved policy reason for not doing so. The underlying principle is that the service user should pay the full cost of the services received.

(b) Actions:

(i) Service managers need to consider their fees & charges in advance of the start of each financial year. Any individual services operating at a deficit should aim to break even unless there is an approved policy to support their on-going subsidy. This should be based on the whole cost of delivering the service, including use of assets.

6.7. **Continue to review the Council's costs in order to find further savings.**

(a) The Council has already achieved significant savings over recent years. However, the Council will continue to seek further efficiencies to help free up resources, ensure services are as efficient and effective as possible and support the community. The focus is to ensure services are delivered to an appropriate standard at a competitive unit cost.

(b) Three programme boars (Infrastructure, Business Improvement and Commercialisation) have been set up to co-ordinate the various projects that the council is engaged in. This enables the council to direct resources to higher priority projects, and enables senior management to intervene to assist projects to remain on track to deliver their planned objectives. The programme boards also track efficiencies as part of their process which aids corporate financial planning. These are now incorporated in the 5 year financial model.

(c) Future service reviews will consider the most efficient ways of working, including working with partners, channel shift, sharing assets, shared services and outsourcing to deliver the best and most effective solutions for services and the community. Each review should also incorporate a commissioning challenge to ensure that the most effective and efficient procurement method is applied.

(d) Aside from formal service reviews, service managers should normally be considering the best, most cost effective procurement methods in their service areas.

(e) Action:

(i) In order to assist the budget process for future periods, further efficiencies should be identified. Officers will need to review service costs to determine whether unit costs are appropriate and report back to members where service reviews are deemed necessary to reduce unit costs to an acceptable level.

(ii) An analysis will be undertaken of the Council's budgets relative to those of other authorities. This will assist us to direct reviews to those services where costs appear to be high.

6.8. **Match Council Tax increases to a realistic and affordable base budget.**

(a) The objective is to limit increases in Council Tax to modest and affordable levels over the next 5 years, whilst accepting that such an objective may be impacted by national government policy. The previous coalition Government adopted a policy of offering temporary freeze grants. It is not clear whether this will continue into 2016/17. It is also not yet known if the previous requirement to hold a referendum for increases of 2% or above would still apply, although it is anticipated that this requirement will continue. The 5 year financial model currently assumes no annual increase in council tax.

6.9. **Budgets should be pooled with other service providers to achieve more effective and cost efficient outcomes for the community.**

(a) It is likely that in future the Council will become more involved in new ways of working, including greater partnership working, devolved budgets and pooling resources with other agencies. It is important that the Local Strategic Partnership strategic objectives and community outcomes are agreed from the outset when partnerships are formed so that the achievement of results can be measured and reported to members to ensure public funds are being used in the most efficient way to achieve greatest impact for the community.

(b) An NDR pool in West Sussex has been created, thereby enabling us to retain more of the NDR growth locally for investment jointly with other pool member authorities. The Full localisation may in effect do away with the need to form NDR pools to retain this growth. Until then it is recommended that we continue with the current pooling arrangements.

(c) Action:

(i) Where appropriate we should commission services with other service providers and pool our budgets to provide more effective and efficient outcomes for the customer.

6.10. **New Homes Bonus (NHB) This should be allocated annually, and only committed once received.**

(a) The NHB is not new funding. This is paid from local government funding that would otherwise have been distributed to councils. The grant is not ring-fenced, and as such the Council can choose how it wants to use this source of funding, although the previous coalition Government pointed out

that it expected it to be used to help “reward” communities that have taken housing growth. Further, the Government also stated that it expects councils to consult their communities on its use, and in areas where there is a national park as the planning authority, to also consult with the park authority.

(b) The funding is paid as a grant in respect of each new domestic dwelling coming into the tax base (net of any long term empty properties) of the whole District, including the area within the National Park. The amount paid is based on the national average council tax, and is paid for the following six years, split 20% to the County Council and 80% to the Housing authority, i.e. CDC.

(c) It was flagged last year that that there is a risk that, NHB may be amended or replaced following the parliamentary elections. NHB should not, therefore, be relied upon long term to resolve our budget position, and should only be committed after it is received. The unallocated value of this fund is currently £4.9m.

(d) In previous years we have not used the NHB to assist in balancing our revenue budget, and have instead used this source of funding to help reward communities by funding one off projects. With the introduction of CIL, and given the uncertainty surrounding the future of NHB as we await the detail of the 2015 spending review the grants and concessions panel are currently undertaking a review of the use of NHB, along with other grant funding that the council makes available to individuals and groups.

(e) Action:

(i) The NHB to be reserved for community and other uses after it has been received. It remains important, however, to allocate this funding taking into account the legal requirement to set a balanced budget for the council. As such this will be reviewed annually.

(ii) The grants and Concessions panel are to review the use of this fund and report their recommendations to Cabinet in due course.

6.11. **Localisation of Business Rates. We should review the decision to pool our business rates annually after receipt of the government draft settlement to ensure that the Council is in the best possible financial position.**

(a) Action:

(i) The existing pooling arrangement will continue into 2016/17 unless the council opts out of this arrangement. Once the draft settlement has been announced the council will have an option to withdraw from the pool, however, until NDR is fully localised it would remain beneficial to retain the current pooling arrangements.

7. Resources and Capital Programme Principles

7.1. **Capital receipts, reserves and interest on investments will primarily be available for new investment of a non-recurring nature, thereby minimising the overall financial risk.**

(a) This is a long-established principle whereby non-recurring resources are used to meet non-recurring expenditure. The revenue budget is no longer reliant on reserves. Interest receipts are diverted to support the capital programme, although officers are considering options for the use of property funds for longer term deposits, and the interest earned could potentially be utilised to support the revenue budget.

7.2. **Ensure that a sufficient level of reserves are maintained, as informed by the Financial Strategy, so that the Council can remain flexible and is able to respond to a changing local government environment.**

(a) The objective is to offer resilience against the unexpected and provide resources for new initiatives including one off costs to assist with reshaping the organisation.

(b) The Capital Programme is an estimate of the capital schemes' likely cost and the funding resources likely to be available to meet that need. This is always subject to amendment if, for example, a scheme cost is higher than anticipated or an anticipated capital receipt is less than expected. The capital programme is by its nature constantly changing and the resource position will be continuously monitored to ensure it remains affordable. The Resources Statement reflects the current level of reserves, anticipated receipts, and commitments, and this is attached at Appendix 2. This currently indicates a surplus of resource of £8.9m.

(c) The Resources Statement assumes a minimum level of general fund reserves of £5m as agreed by members in 2009 and reaffirmed in subsequent years.

(d) Although the Resources Statement indicates £8.9m as being available, further projects, possibly to supplement CIL or projects that produce revenue income to assist with the Council's revenue budget may be funded from the residual balance of this fund.

(e) Action:

(i) Routine monitoring of the capital schemes and the overall resources position will continue via the members' bulletin board to ensure the capital programme remains affordable.

(ii) All earmarked reserved are to be reviewed with service managers to ensure that they remain relevant and essential, otherwise the funds should be returned to available balances.

7.3. **Borrowing could be used for capital schemes or "invest to save" projects providing the cost of servicing the debt is contained within the revenue savings/income the project generates. The payback period for invest to**

save projects should be shorter than the life of the asset.

(a) At present, there are no plans to borrow to finance new capital expenditure in the current 5 year plan but this remains an option if deemed to be prudent. Short term internal borrowing (for schemes that pay back within the 5 year time frame of the capital programme) can be accommodated without incurring external interest charges, provided the resulting savings are recycled into reserves. Longer term pay back periods will have to accommodate both the external interest and a minimum revenue provision (MRP) in accordance with the Council's MRP policy, which links repayment of the debt to the life of the asset.

(b) Borrowing would add pressure on the revenue budget as MRP and interest would become payable. The capacity to make these payments would need to be identified in advance, namely the further efficiency savings generated by the investment in the assets.

7.4. **Treasury Management**

(a) The Council is required to agree its treasury management policy annually, and this year made further changes during the year, following a task and finish group review. Performance reports are also received during the year. The key objectives are security of the principal sums invested, and liquidity. Maximisation of investment return is a secondary objective. As such, removing revenue reliance on investment income not only strengthens the Council's financial position, but also reinforces the primary objective of the treasury management policy. However the use of a property fund would enable the council to invest balances in a long term fund which would provide a predictable return that could be used to assist in closing the projected budget deficit.

(b) The Treasury Management Policy, together with the MRP policy and Prudential Indicators are an integral part of the Financial Planning process, but they will be reported separately to Cabinet early in the New Year.

8. Alternatives that have been considered

8.1. The Financial Strategy is key to ensuring the Council continues to set a balanced budget even with all of the uncertainty and pressure faced by the Council in the current economic climate.

9. Resource and legal implications

9.1. The financial principles will help to guide the management of the Council's finances over the short to medium term, and will underpin the budget process that will be reported back to Cabinet in February.

10. Consultation

10.1. Corporate Governance and Audit Committee are asked to consider this report and make any recommendations as appropriate to Cabinet.

11. Community impact and corporate risks

11.1. The Council has taken action over the last five years to achieve a relatively strong financial position. However, there remains a great deal of uncertainty over the future with many different factors that may impact on the Council and change the financial forecast. The financial principles contained within this report will help the Council maintain its financial standing and protect valuable services to the community, whilst giving flexibility to respond to changes in the future.

12. Other Implications

Crime & Disorder:		None
Climate Change:		None
Human Rights and Equality Impact:		None
Safeguarding:		None

13. Appendices

13.1. Appendix 1 - Five Year Financial Model.

13.2. Appendix 2 – Statement of Resources.

14. Background Papers

14.1. none